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Memorandum

To : **Clark E. Kerr, Chair**
California Health Policy and Data Advisory Commission
Office of Statewide Health Planning and Development

Date : June 22, 1999

From : **Dennis T. Fenwick, J.D., Deputy Director**
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Subject : **Update on Cal-Mortgage Loan Insurance Program**
For the California Health Policy and Data Advisory Commission (CHPDAC)
For CHPDAC's Meeting in Burlingame on June 22, 1999

This Memorandum, with its attachments, updates the information given by the Cal-Mortgage Loan Insurance Division (**Cal-Mortgage**) of the Office of Statewide Health Planning and Development (**OSHPD**) to CHPDAC at CHPDAC's meeting in San Diego on August 12, 1998, concerning the Cal-Mortgage Loan Insurance Program (**Program**).

I. **Monthly Activity Report.** The Program's Monthly Activity Report for May 31, 1999, is attached (see **Exhibit 1**). This Monthly Activity Report can now be generated with Cal-Mortgage's computer program called **Tracker**. This Report shows that as of May 31, 1999, there were **182 insured loans** (see **Exhibit 2**). (The high was 228 loans.) The total risk has continued to decrease to **$1.199 billion** (see **Exhibit 3**). (The high was $2.06 billion.) The fund balance in the Health Facility Construction Loan Insurance Fund (**HFCLIF**) increased to an all time high in April 1999 of **$159.2 million** due to the receipt of $32 million in February 1999 from Goldman, Sachs & Co. in the Triad litigation (see **Exhibit 4**). (These Exhibits will be included in the Monthly Activity Report ending June 30, 1999.)

II. **New Loans.** Since May 3, 1994, when the moratorium on the Program was lifted, the Advisory Loan Insurance Committee (**Committee**) has recommended 48 loans to the Director for approval (see **Exhibit 5**). Of those, 42 have closed. The average dollar amount of the loans that closed remains stable at $9.6 million. For the 2 fiscal years of 1995-96 and 1996-97 the average number of new loans insured was 6. That number doubled in 1997-98 to 12, but dropped in 1998-99 to 3 (see **Exhibit 6**).

III. **Refinanced Loans.** Since May 3, 1994, when the moratorium on the Program was lifted, 22 loans insured by Cal-Mortgage were refinanced (see **Exhibit 7**). Since my last report, those loans increased from $403 million to $422 million and average $9.2 million.

IV. **Distribution of Loans by Type.** Attached are pie charts (see **Exhibits 8** and 9) of the same projects listed in the above Monthly Activity Report sorted by **type** of project. The charts show "snapshots" of February 1992, July 1995, June 1998, and June 1999. (Exhibit 8 is by the number of loans insured. Exhibit 9 is by the total dollars insured.) Exhibits 8 and 9 shows that the number of **hospitals** insured (including hospital districts) have continued to dropped in the last year from 19 to 16 percent of the 182 loans insured by Cal-Mortgage, and from 50 percent to 42 percent of the $1.2 billion insured by Cal-Mortgage. Exhibits 8 and 9 shows that the number of **multilevels** insured have dropped in the last year from 20 to16 percent of the 182 loans insured by Cal-Mortgage, and they have dropped from a high of 35 to 29 percent of the $1.2 billion insured.

V. **Payments from the HFCLIF.** Since the default of CACCOA, which resulted in the first payment from the HFCLIF in June 1992, there have been 37 payments from the HFCLIF totaling $67.4 million. Two payments were paid back from borrowers and, Goldman, Sachs paid $32 million. These three recoveries equaled $32.6 million. Therefore, the net paid has been $34.1 million (see **Exhibit 10**). Three loans were accelerated and paid in full: CACCOA, Los Medanos, and The Third Floor.

VI. **Projects Invading their Debt Service Reserve Fund (DSRF).** Since 1993, 23 projects have invaded their DSRF (see **Exhibit 11**). Of those, 7 required payments from the HFCLIF. Including CACCOA, the total is 8. Of the 7 requiring payments from the HFCLIF since 1993, all of the invasions of their DSRFs started in 1995 or before. **Of the 14 projects that invaded their DSRF since 1994, only one has required payments from the HFCLIF, and only 9 have not replenished their DSRF. Of those 9, only several are having great difficulty.**

VII. **Actuarial Study.** Another biennial Actuarial Study was completed in December 1998 with an "as of" date of June 30, 1998. The Study was performed by Ernst & Young LLP. The Study concluded that, without the Goldman, Sachs payment of $32 million, the HFCLIF reserves are sufficient and that, assuming "normal and expected" conditions, the HFCLIF should maintain a positive balance over the long term. Projections also included one at page 99 with a recovery from Goldman, Sachs of $30 million on July 1, 1999. In fact, $32 million was received in February 1999.

VIII. **Audit of Cal-Mortgage.** The California State Auditor (**Auditor**) completed on October 14, 1998, the audit of the Program requested by Assemblymember Tom Torlakson. Cal-Mortgage submitted the required 60 day and 6 month responses (see **Exhibit 12**). The third and final response is due on October 14, 1999. Additionally, in response to the Auditor's report, Assemblymember Torlakson introduced Assembly Bill (**AB**) 282 to require the Program, among other things, to establish a maximum level of insurance risk for the projects it insures (see **Exhibit 13**). AB 282 is in the Senate. Cal-Mortgage has suggested additional changes to AB 282, which appear to have been accepted.

IX. **Standard & Poor's (S&P) Rates Cal-Mortgage with the State, at A+.** There has been no change since S&P rated the Cal-Mortgage Program in February 1998 at **A+ with a positive outlook**.

X. **BBB minus Rating for Tahoe Forest District Hospital.** This month S&P rated Tahoe Forest District Hospital (**Hospital**) with a BBB minus rating. In 1994 Cal-Mortgage insured a $12.7 million loan that refinanced a 1986 loan. The Hospital is licensed for 42 acute care and 30 skilled nursing beds. The Hospital reports that it is the first 50-bed hospital in the U.S. to get an investment grade rating from S&P. This rating will allow the Hospital to obtain loan insurance from the newest loan insurer, American Capital Access (**ACA**), for the refinanced portion of its $9 million loan, plus up to $13 million for future capital needs. The hospital reports that the rate ACA has quoted the Hospital is 0.85 percent of the total principal and interest insured. ACA has an A rating.

XI. **Fact Finding on Linkages.** Cal-Mortgage held its last fact finding meeting on November 4, 5, and 6, 1998. The topic was "Linkages between Health Care, Community and Economic Development, and Academic Centers." As second presentation was give on February 1, 1999, to the California Association of Homes and Services for the Aging.

XII. **Tracker.** Cal-Mortgage's Tracker computer program can now generate various reports, such as the Monthly Activity Report (see **Exhibit 1**), Problem Project Reports (see **Exhibit 14**), and reports by location (see **Exhibit 15**).

XIII. **FAMAS.** Data from borrowers' annual and quarterly financial statements for all insured loans have been entered into Crowe Chizek's FAMAS software program. The program is being customized for Cal-Mortgage's needs. One training course has been completed, and another, called Benchmark, is schedule for June 30. Cal-Mortgage is now running reports from FAMAS that (1) show the borrower's financial activities over those years entered and (2) makes comparisons of the borrower's current financial status against other standards. The first comparison is the borrower's current financial status, against its past status. The second is a comparison against the RMA's national database of average industry standards. The third (Benchmark) will be a comparison against Cal-Mortgage insured borrowers of the same type.

XIV. **Revenue (Assets) and Expense (Liabilities) Projections.** Cal-Mortgage has created in Excel a chart showing Estimated Revenue and Non-Operational Expenses for the following Fiscal Year 1999-2000 (see **Exhibit 16**). Additionally, as suggested by the California State Auditor, Cal-Mortgage provided the Administration Division of OSHPD the "financial statements" of the HFCLIF, including documentation for all "assets and liabilities related to the defaults."

XV. **Triad (Sherman Oaks) Litigation and Refinancing.** The courts approved OSHPD's Settlement Agreement with Goldman, Sachs & Co. As a result, in February 1999 Goldman, Sachs paid $32 million to Cal-Mortgage. Another $20 million guaranteed by Goldman, Sachs remains to be paid. The two appeals of OSHPD of the judgments granting the defendants' Motions for Summary Judgment to dismiss OSHPD's two complaints continue.

XVI. **Los Medanos.** The property within the Los Medanos Hospital was sold. The State Superior Court confirmed all the actions of the District, so that no one could later attempt to set aside the bankruptcy plan. The disbursing agent should start releasing funds. The Settlement Agreement with Los Medanos (District and Corporation) was signed in September 1998. It provides that Cal-Mortgage's allowed claim is be $8,657,000, of which $4.430,000 is secured and $4,227,00 is unsecured. For its secured claim, Cal-Mortgage is to receive all future annual $100,000 lease payments from Contra Costa County for the hospital, which has an estimated present value of **$1,400,000**; **$2,030,000** from the sale proceeds of the skilled nursing facility; and a guaranteed minimum of **$1,000,000** for the equipment. Cal-Mortgage will lend back the last two items totaling $3,030,000 to the District to be used to pay the general unsecured creditors (**GUCs**), which should result in an additional **$1,500,000** to Cal-Mortgage for its unsecured claim of $4,227,000. The loan has an interest rate of 8 percent. Principal and interest are payable at $400,000 annually. The loan will be secured by a deed of trust on all the District's real property, including four unimproved parcels and the hospital, all subject to Contra Costa County's 20 year lease.

XVII. **VillaView.** Cal-Mortgage has agreed to the sale of VillaView Hospital in San Diego. VillaView has been in default for over 4 years, and has had difficulties for longer than that. The sale is scheduled to close this week. Cal-Mortgage will accelerate the loan and pay about $14,375,000. At the closing Cal-Mortgage should receive about $4 million. On July 31, 2000, Cal-Mortgage should receive about $1.3 million to reimburse Cal-Mortgage payments, plus another $400,000 for 80 percent of the payments made to Imperial Bank. Then from July 31, 2001 through 2003 Cal-Mortgage should receive $1.3 million each year, plus 20 percent of the Imperial Bank loan paid by Cal-Mortgage of approximately $200,000. This is a total of about $11.4 million (a net lost of some $3 million). All the payments are secured by DSH money from DHS.

Attachments (16)

cc: David Werdegar, MD, MPH
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Cal-Mortgage Staff

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